

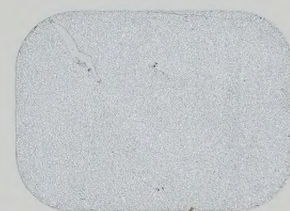
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CRYPTOLOGIC

2000 ANNUAL REPORT

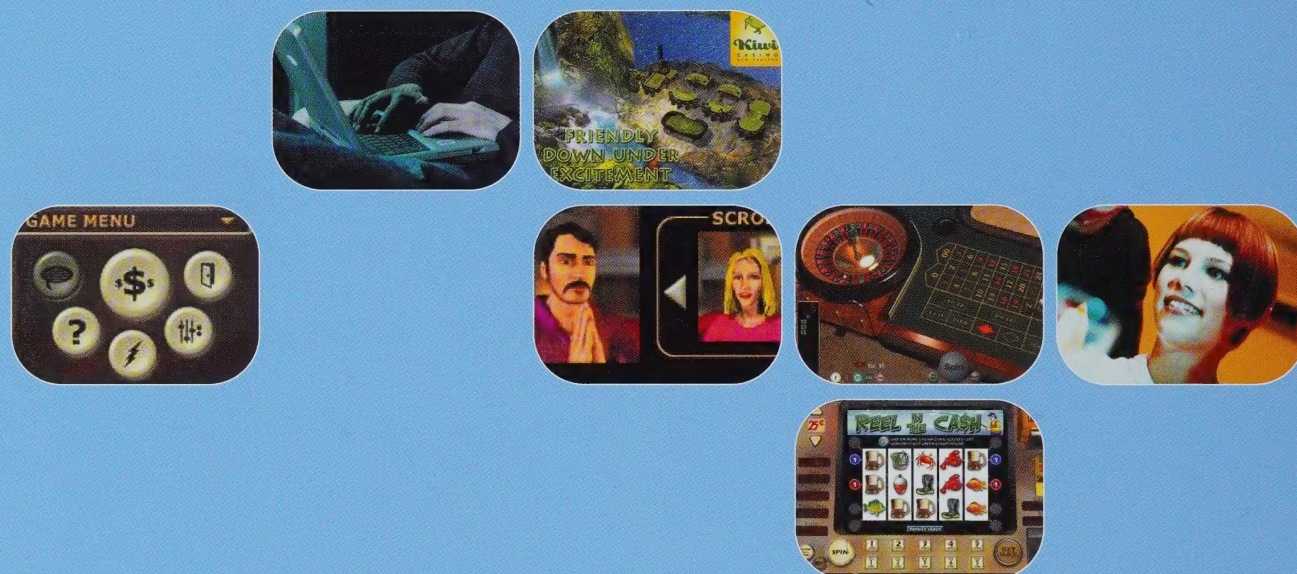
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CRYPTOLOGIC IS A WORLD-LEADING PROVIDER OF SOFTWARE AND SERVICES FOR INTERNET GAMING.

As a pioneer and trendsetter, the company has earned a major share of this burgeoning, multi-billion dollar global market. Since CryptoLogic began commercial operations, more than 680,000 players from 240 countries around the world have registered and played at online casinos that use CryptoLogic's software. The company has processed secure electronic transactions worth US\$5.1 billion – a testimonial to the proven performance of its technologies.

Over a year ago, CryptoLogic anticipated the entry of brand name, land-based groups to the online gaming industry. Shifting its strategy to focus on these long-term leaders, CryptoLogic will enhance their brand identities with its state-of-the-art, fun, safe and self-regulated Web entertainment software. Recognized for high-margin results, CryptoLogic has charted a course that will center on serving these top tier, profitable names in online gaming.



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Statements in this annual report, which are not historical are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including, without limitation, risks associated with the Company's financial condition and prospects, legal risks associated with Internet gaming and risks of governmental legislation and regulation, risks associated with market acceptance of technological changes, dependence on licensees and key licensees, increased competition and other risks detailed in the Company's filings with securities regulatory authorities. When used herein, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as are intended to identify forward-looking statements. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those projected in the forward-looking statements as intended, planned, anticipated, believed, estimated or expected. CryptoLogic does not intend, and does not assume any obligation, to update these forward-looking statements.

** US\$4.9 BILLION – TOTAL WINNINGS
CRYPTOLOGIC'S LICENSEES HAVE
PAID OUT TO DATE.*

AND WE'VE ONLY SCRATCHED THE SURFACE OF THE ONLINE GAMING INDUSTRY >

CHAIRMAN'S MESSAGE



AUSTIN PAGE CHAIRMAN

In five years the Internet gaming industry has moved from innovative start-up to early mover success, to rapid growth, and now, to a highly competitive environment. Low barriers of entry and minimal regulation have attracted a wide range of talent and reputation.

Highly dynamic, the industry initially caused wide concern, but more recently, recognized that the “genie” would never go back into the bottle. Wiser heads have now acknowledged the futility of prohibition and the desirability of higher levels of probity and regulation.

This year has seen enormous movement by land-based gaming operators to embrace the Internet as a natural

extension of their brands. Their entry significantly altered the dynamics of Internet gaming. To support and enhance their established customer base, they will command high levels of reputation, probity, reliability, customer care and economic performance.

Regulation and certification of Internet gaming services will raise barriers of entry and force industry consolidation.

Your Board of Directors and the founders of CryptoLogic anticipated and began preparation for these industry changes in 1999. Strategies, management and capital are now in place to exploit these changes and to significantly enhance shareholder value.

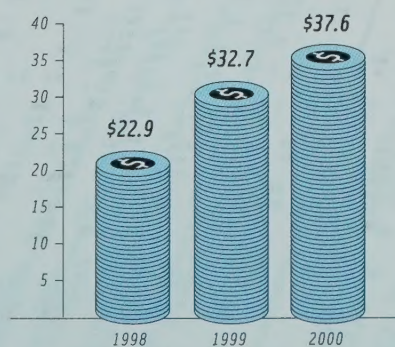
A handwritten signature in black ink, reading "Austin Page".

FINANCIAL HIGHLIGHTS

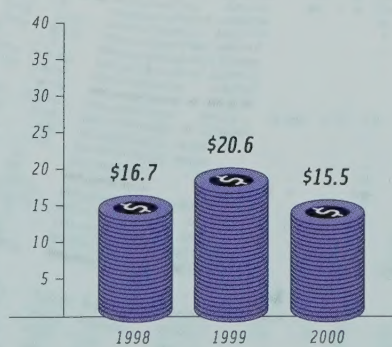
(US\$ THOUSANDS, EXCEPT PER SHARE INFORMATION)

	2000	1999	1998
INCOME STATEMENT			
Revenue	\$ 37,644	\$ 32,684	\$ 22,921
Net income	\$ 15,485	\$ 20,561	\$ 16,713
Net margin	41%	63%	73%
Earnings per share			
Basic	\$ 1.18	\$ 2.40	\$ 1.99
Fully diluted	\$ 1.04	\$ 1.35	\$ 1.10
Weighted average number of shares	13,103	8,570	8,396
Weighted average number of fully diluted shares	15,332	15,420	15,298
FINANCIAL POSITION			
Cash and restricted cash	\$ 56,696	\$ 46,017	\$ 23,790
Working capital	\$ 55,341	\$ 44,245	\$ 24,282
Total assets	\$ 62,456	\$ 49,561	\$ 27,436
Shareholders' equity	\$ 57,610	\$ 45,840	\$ 25,012
VALUE MEASURES			
Return on equity	30%	58%	101%
Price to earnings multiple	9	13	7
Market value to book value	3	6	5

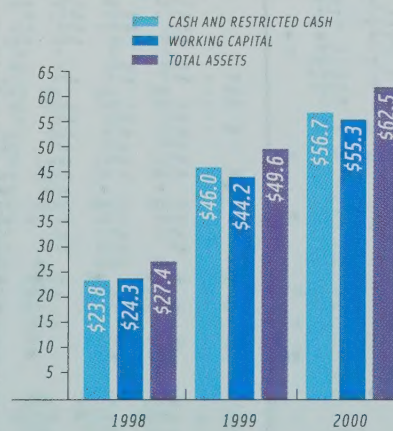
TOTAL REVENUE [US\$ MILLIONS]



NET INCOME [US\$ MILLIONS]



FINANCIAL POSITION [US\$ MILLIONS]





THE PAST FIVE YEARS

MARK RIVKIN DIRECTOR & CO-FOUNDER
ANDREW RIVKIN DIRECTOR & CO-FOUNDER



DEALING THE CARDS: 1995-1999

"When we looked for capital to commercialize our technology, people asked, 'Why secure the Internet? How are you going to make money?'"

High-tech companies seem to burst out of garages or rise out of basements. In our case, it was a basement – our parents'.

The original idea was encryption technology to secure the Internet. But it was still 1995. When we looked for capital to commercialize our technology, people asked, "Why secure the Internet? How are you going to make money?"

So we developed another idea – a tangible consumer application to demonstrate our encryption technology. That application was online casino gaming.

We had a tiger by the tail. Within a year, our first licensee launched the original real money casino site on the Internet – InterCasino – that is still one of the world's largest and most popular virtual casinos. A new company and an exciting new industry were born.

Over the next few years, 750 more online casino sites were started by cyber-entrepreneurs all over the world.

THE PAST FIVE YEARS

[continued]

The players were early adopters, willing to gamble on the integrity of the site and the software as much as the game. CryptoLogic very quickly carved out a major share of this exploding Internet market as a tried and trusted software provider.

Then the Internet really began to change our daily lives. Increasing bandwidth and processor speeds enabled CryptoLogic to build dynamic 3D graphics and real-time interactivity – just like a real casino!

Unlike most dot.com companies, CryptoLogic has been profitable since year one. We established an old-economy business model based on revenue growth, cash flow and profitability. Today, we remain true to this winning formula.

The formative years of online gaming were a bit of a “Wild West”. We decided to take the bull by the horns. To inspire credibility and market confidence, CryptoLogic embraced self-regulation at the onset, setting high standards of business practice.

Our software has always used random number generator technology tested to meet New Jersey gaming standards. We also became a public company subject to independent auditing and securities regulation. Licensees had to have a government-granted license to operate an Internet casino using CryptoLogic’s technology. We did background checks. Implemented fraud prevention measures. And pursued the world’s most rigorous software certification in Australia.

Self-regulation is working, and it will be even more important as large land-based casino operators continue to go online. They’re coming to see the Internet as a natural and “brandable” extension of their businesses.

At the helm of this next frontier in late 1999, we signed the world’s first land-based gaming organization to go online with casino technology – William Hill. This deal marked a new strategic direction for CryptoLogic and the industry. We will continue to lead the way.

“Unlike most dot.com companies, CryptoLogic has been profitable since year one. We established an old-economy business model based on revenue growth, cash flow and profitability.”



SELF-REGULATION



TO INSPIRE CREDIBILITY AND MARKET CONFIDENCE, CRYPTOLOGIC EMBRACED SELF-REGULATION AT THE ONSET, SETTING HIGH STANDARDS OF BUSINESS PRACTICE.



THE PRESENT

PLAYING THE HAND: 2000

As our Chairman mentioned in his opening greeting, 2000 will be seen in our young industry as a turning point. An industry that was carved out of cyberspace is now being rapidly settled by major land-based casino gaming corporations. Eager to welcome these settlements and establish more, CryptoLogic adopted a 3-pronged strategy:



1. **Focus on major land-based gaming groups as tier one prospects**, because they have the reputations to establish reputable Internet brands, and the large clientele to create profitable sites.
2. **Invest in regulatory compliance** to provide the controls and safeguards important to land-based groups and their clientele.
3. **Invest in technology, infrastructure and customer care** to provide the software and services to support these tier one customers.

Brand name casinos started expanding online

In 2000, Internet gaming achieved critical mass — now a US\$1.5 billion annual business. Equally exciting was the fundamental shift occurring in this space. While the early adopters (purely cyber operators) will continue to flourish, expansion will be led by major land-based gaming groups, who began to recognize the Internet as a viable and synergistic extension of their business.

Name brand operators can trade on their track records for fair play and the ability to pay winnings. Right out of the gate, on-land groups have the ability to inspire credibility and consumer confidence. According to Ernst & Young, new Internet market entrants must spend 50-70% of sales in their first few years to create, then support their brand. Established businesses already have that brand equity.

"While the early adopters (purely cyber operators) will continue to flourish, expansion will be led by major land-based gaming groups, who began to recognize the Internet as a viable and synergistic extension of their business."

THE PRESENT

[continued]

Online gaming was a global industry right out of the box because of the nature of the Internet. CryptoLogic's strategy to attract the world's best land-based groups is equally global. In 2000, we signed five high-quality name brand clients in markets around the world, more than any of our competitors.

JUPITERS LIMITED A MAJOR AUSTRALIAN CASINO ORGANIZATION AND SECOND LAND-BASED GROUP TO ENTER INTERNET GAMING

INTERNATIONAL THUNDERBIRD A GROUP WITH GAMING FACILITIES IN LATIN AMERICA THAT LAUNCHED SOUTH AMERICA'S FIRST ONLINE CASINO, FIESTACASINOS.COM

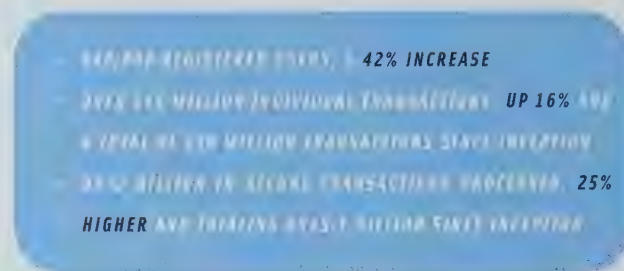
WOREST GROUP A LARGE SOUTH AMERICAN GAMING OPERATOR THAT INTRODUCED THE FIRST INTERNET CASINO LICENSED IN ARGENTINA, NAMED CASINOSUR.COM

CASINO EBET A LEADING GAMING BRAND IN AUSTRALASIA, CASINOEBET.COM

KIWI CASINO AN INVESTMENT BY LEADING NEW ZEALAND GAMING GROUP, CHRISTCHURCH CASINOS, OF AUSTRALASIA, KIWICASINO.COM

Brand name casinos will bring their patrons to the online game – confirming that trusted reputations and established clientele will translate into profitable sites. The real evidence that quality prevails over quantity in our

business can be found in the performance benchmarks CryptoLogic has posted once again in 2000. In our case, 20 select licensees, compared to higher a number for our competitors, continue to capture major market share:



The ultimate winners will be those who can command and keep the largest, most lucrative user base. In the long run, the entrenched virtual and land-based brands will be the ones that thrive and profit – having the trust and financial resources to leverage and grow their customer group.

Governments achieved several breakthroughs in regulation

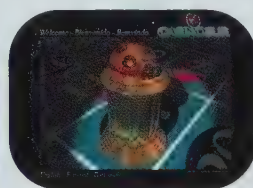
Governments worldwide are coming to recognize not only the need to regulate online gaming, but also the limited control they have over Internet activities that span international borders. The growing involvement of land-based groups in online gaming is also accelerating the trend towards regulation.



JUPITERS LIMITED
www.jupiters.com



INTERNATIONAL THUNDERBIRD
www.fiestacasinos.com



WOREST GROUP
www.casinosur.com



CASINO EBET
www.casinoebet.com



KIWI CASINO
www.kiwicasino.com

"Governments worldwide are coming to recognize the need to regulate online gaming. CryptoLogic continues to set high standards of self-regulation for the protection of users and licensees."

Several breakthroughs occurred in 2000:

Nevada and New Jersey declared intentions for legislation to regulate Internet casinos.

MGM Mirage and Harrah's announced plans for play-for-fun/play-for-prizes casino sites, likely preparing for a regulated U.S. market.

The Nevada Gaming Commission approved the first online sports book within the state.

The U.K. Gaming Board recommended fast tracking online gaming regulation. The British government has just introduced tax-friendly legislation for operators.

Australia implemented stringent regulatory standards at the state level – a world-class model that South Africa and other governments are adopting for their own policies.

Although the forecast is warming to Internet gaming, the road to global regulation continues to be challenging and a number of years away. Australia, for example, imposed a temporary moratorium to May 2001 on new Internet gaming services while the federal government reviews the future of online gaming in that country. Regardless, the industry continues to prosper.

Until legislation clearly embraces online gaming, CryptoLogic continues to set high standards of self-regulation for the protection of users and licensees. Major thrusts in 2000 reflected this core philosophy.

CryptoLogic established a dedicated group to ensure regulatory compliance in all jurisdictions where the company and its licensees do business. We continued to pursue software certification under stringent Australian standards. This process will take almost two years and cost close to US\$2 million to complete, but CryptoLogic will emerge with one of the few software products that the new "certified" Internet casinos can license. This is a huge competitive advantage for CryptoLogic as interactive gaming moves towards controls similar to the regulated land-based world today.

Technology provided opportunities to enhance the online gaming experience

In 2000, CryptoLogic continued to invest in advanced technology for its products, with specific attention to the prerequisites of land-based groups for customization and consumer safeguards. Version 4.0 brought new interactivity, graphic realism and player controls to online gaming.

Highlights of version 4.0:

- more games, including new multi-player, bonus rounds and progressive games
- an interactive casino floor populated with "real" players
- table and seat selection
- customizable player avatars
- enhanced download capabilities
- gaming and e-cash tutorials and online purchasing capabilities

THE PRESENT

[continued]

...risen from ground zero to become an amazing global

player controls to promote responsible gaming including player-imposed deposit and betting limits; temporary locks on accounts; and online gaming and e-cash transaction logs

Version 4.0 substantially widened CryptoLogic's software leadership in the industry. Despite some delays due to the heightened sophistication of the technology, this upgrade did affect revenue performance in 2000. However, five of CryptoLogic's land-based and brand name licensees were launched with the new version before year-end. Strong participation-based revenues in the fourth quarter indicated positive market acceptance.

Organizational developments add strength and keep the winning formula

Aside from software development, we also strengthened our organization by investing in talent, global infrastructure and customer care to ensure the necessary support for our growing premier customers. We opened a new U.K. office to assist with marketing strategies, expanded our customer service facility in Antigua and continued to judiciously enhance our management team and workforce.

The most notable addition is our new CEO, Jean Noelting, who joined CryptoLogic on January 8, 2001. Having successfully managed billion-dollar corporations, Jean has the experience and leadership needed to transform CryptoLogic's entrepreneurial success into market dominance.

2000 was a year of transition, but one that ended with regained momentum pointing to stronger growth rates in 2001. CryptoLogic continued to be something unique among Internet companies – profitable. In fact, the Company's margin of net profit was 41% on net income of US\$15.5 million.

Although revenue growth was more modest in 2000 – up 15% to US\$37.6 million – fourth quarter results were 24% higher (US\$10.6 million) than fourth quarter 1999 (US\$8.6 million). The Company turned in a strong balance sheet performance with a total cash position of US\$57 million at fiscal year-end.

CryptoLogic has risen from ground zero to become an amazing global success in just five short years. We are grateful to all our employees, customers and shareholders for making this amazing journey with us. As founders, we can now leave day-to-day management in the knowledge that we have established a fundamentally strong organization, invested in the future and accumulated strong cash reserves to accelerate growth. We will continue to contribute our founding vision as directors and fellow shareholders.

CryptoLogic's future is truly exciting as we welcome Jean to head up the team. In the next section of this report, he will articulate a clear strategy that will take our company to its next level.



ANDREW RIVKIN
DIRECTOR & CO-FOUNDER

FEBRUARY 1, 2001



MARK RIVKIN
DIRECTOR & CO-FOUNDER

KEY PERFORMANCE MEASURES

NUMBER OF LICENSEES



NUMBER OF REGISTERED USERS [THOUSANDS]



NUMBER OF TRANSACTIONS [MILLIONS]



PROCESSING VOLUMES [US\$ BILLIONS]



THE REAL EVIDENCE THAT QUALITY PREVAILS OVER QUANTITY IN OUR BUSINESS CAN BE FOUND IN PERFORMANCE BENCHMARKS CRYPTOLOGIC POSTED AGAIN IN 2000.



PLANS FOR 2001

JEAN NOELTING PRESIDENT & CEO

*RAISING THE STAKES: 2001*

"From a product-oriented company focused on the best games, we are evolving to be a market-driven organization, concentrating on delivering the best service and overall experience."

I am truly excited with the exceptional opportunity to lead CryptoLogic into its next growth phase.

Our strategic focus will be signing new high-quality brand-name licensees, and helping our licensee group grow profitably through superior customer care. In addition, we will be initiating a program of acquisition to leverage our cash position. This will accelerate revenue and high-margin growth.

The move of land-based casino operators going online is now firmly entrenched. In the competitive world of interactive gaming, they must jockey for position and create an environment where they can extend the entertainment factor of their physical casinos. The Internet offers a way to build a synergistic 'brick and click' business that expands their brand and enhances customer relationships. The objective is to increase loyalty, derive incremental value from their player base, and deliver great entertainment.

PLANS FOR 2001

[continued]

The ultimate winner will be the company whose licensees will have the largest base of high-quality players. In support, CryptoLogic is changing the rules of engagement. From a product-oriented company focused on the best games, we are now evolving to be a market-driven organization, concentrating on delivering the best service and overall experience. The focal point will be on the customer, supported by the technology as the means to provide an enjoyable visit.

CryptoLogic is raising the stakes in the online gaming market and redefining relationships with players to drive repeat business. CryptoLogic will do this by enhancing our value proposition to licensees through:

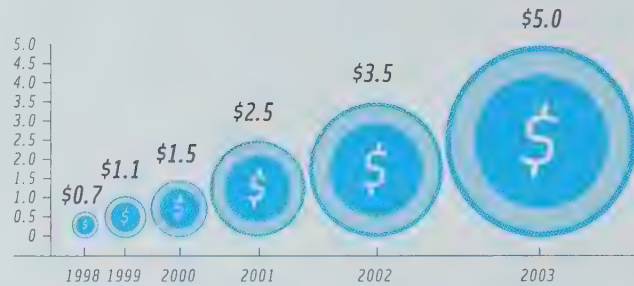
- smarter marketing/customer care; and
- regulatory compliance.

These underlying fundamentals will be the keys to success in the evolution of Internet gaming as mainstream entertainment. They will be the thrust of CryptoLogic's plans for 2001 and beyond.

Picking the hot spots in a global market

Although the online gaming industry has only just scratched the surface and is still growing rapidly, it is already highly competitive. Industry experts suggest that the global market will rise to US\$5 billion in the next few

ESTIMATED ANNUAL INTERNET GAMING REVENUE [US\$ BILLIONS]



SOURCE: BEAR, STEARNS 2001

years. The industry will grow even more quickly in a regulated environment. This will move online gaming into the mainstream of home entertainment options. Equally dramatic has been the more than 1,400 online gaming properties that have sprung up within the past few years, but we believe only the top tier are profitable – hence CryptoLogic's focus on the name brand groups.

We continue to be optimistic about market prospects. Growth in Internet access remains strong and attitudes toward online gaming are becoming more and more favorable. The United States remains a dominant market, but the rest of the world is gaining ground – Europe and Asia leading the way. While still growing rapidly, the Internet population in America has been declining

"Industry experts suggest that the global market will rise to US\$5 billion in the next few years. Equally dramatic has been the more than 1,400 online gaming properties that have sprung up....but we believe only the top tier are profitable."

RAISING THE STAKES

ESTIMATED WORLDWIDE ADULT HOME INTERNET USERS (IN MILLIONS)

	1998	1999	2000	2001	2002	2003
United States	63	75	90	105	115	125
Western Europe	34	48	64	76	91	100
Asia	13	37	53	72	94	122
Japan	11	17	29	39	53	64
Latin America	5	9	15	22	28	37
Total Internet Users	126	186	251	314	381	448

SOURCE: MORGAN STANLEY DEAN WITTER

relative to other markets, and is now under 40% of worldwide users. Together with ongoing uncertainty regarding legislation in the U.S., the greatest growth potential resides in international geographies.

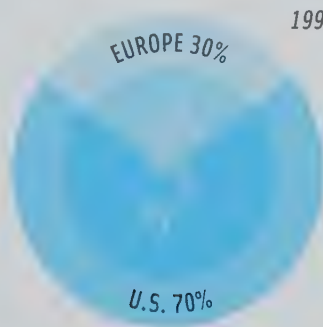
Opportunities for play-for-fun/play-for-prizes in jurisdictions where regulation is still in flux, such as the U.S., will remain on CryptoLogic's radar screen, but our priority will be those international regions that provide

immediate revenue growth.

Right now, the United Kingdom and continental Europe offer CryptoLogic some of the most promising areas of expansion. The company was already successful at signing William Hill, the second largest sports book in the U.K. Continental Europe is expected to come on strong during 2001, and so will Asia, where we will place a concerted effort in the second half of 2001.

TOTAL ONLINE GAMING REVENUES FOR THE U.S.
AND WESTERN EUROPE [US\$]

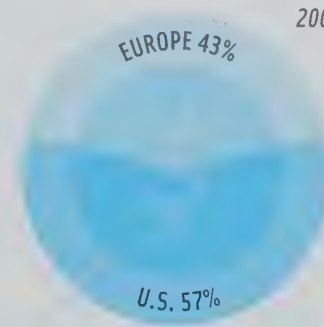
1999 - \$82 MILLION



SOURCE: DATAMONITOR 1999

TOTAL ONLINE GAMING REVENUES FOR THE U.S.
AND WESTERN EUROPE [US\$]

2004 - \$4.9 BILLION



SOURCE: DATAMONITOR 1999

PLANS FOR 2001

[continued]

CryptoLogic proactively prepares its regulatory advantage

The journey towards standardized international regulation of online gaming has already started. While it will take time to fully develop, the ubiquitous nature of the Internet and the sheer size of this multi-billion dollar industry are creating a powerful thrust. We believe full regulation is just a matter of time. Land-based groups, governments and players will demand this legislation for the protection of users and continued growth of the industry.

In reality, the digital world creates opportunities for greater consumer protection than within physical borders. CryptoLogic's software, for example, enables the monitoring and control of abnormal activity. It already provides for player-imposed deposit and betting limits, geographic restrictions, as well as temporary and permanent locks on accounts. Our software offers online gaming and e-cash logs to allow individual players to track and record their own transactions. This all supports the regulatory objective of safe and responsible gaming.

Currently, more than 50 jurisdictions worldwide regulate or are in the process of legalizing some form of Internet gaming. This number continues to grow. Las Vegas took 20 years to mature into a world-class entertainment destination; now Internet gaming is going through a

similar evolution. We've come a long way in a short time. The interest of major Nevada casinos is now accelerating the trend towards regulation.

In anticipation of and support for a regulated environment, CryptoLogic has stressed self-regulation at the core of its business practices from our earliest days. In 2001, we will complete our rigorous, high-investment and time intensive Australian certification – universally recognized as a world-class model. This certification will enable us to establish a compliant base product that meets requirements for ISO registration and Nevada regulatory standards. In other words, our base software will contain the regulatory controls that land-based casinos comply with today and will insist on to preserve their reputations on the Internet.

CryptoLogic will be one of a very few solution providers in this favored position. When the market regulates, CryptoLogic will already be one step ahead of the game.

Technology meets customer service

Customer care has not been very sophisticated in the online gaming industry to date. Emphasis has been primarily on getting players to the sites. CryptoLogic is now raising the bar by introducing sophisticated customer retention strategies. In a highly competitive arena with lots of options to choose from, service will be the market differentiator.

"This [Australian] certification will enable us to establish a compliant base product that meets requirements for ISO registration and Nevada regulatory standards. . . controls that land-based casinos comply with today and will insist on to preserve their reputations on the Internet."



EXPERIENCE



CRYPTOLOGIC IS RAISING THE BAR BY INTRODUCING SOPHISTICATED CUSTOMER RETENTION STRATEGIES. IN A HIGHLY COMPETITIVE ARENA, SERVICE WILL BE THE MARKET DIFFERENTIATOR.

PLANS FOR 2001

[continued]

TOTAL U.S. ONLINE GAMBLING REVENUE, BY SOURCE

	1999	2000	2001	2002	2003
Sports betting	53%	42%	39%	36%	34%
Casinos	32%	37%	37%	33%	31%
Lotteries	15%	21%	25%	31%	36%
Total	100%	100%	100%	100%	100%

SOURCE: DATAMONITOR 1999
NOTE: ROUNDING ERRORS MAY OCCUR

Land-based groups are looking to buy trust – not just software – from a company like CryptoLogic. They can't let a bad online gaming experience carry their brand and drive away customers. That's why CryptoLogic is shifting attention to consumer-oriented features and services that will help our licensees build an even more positive experience for players as a powerful incentive that will foster loyalty to a favorite site/operator.

Internet technologies offer superb opportunities to extend the player's experience at his or her favorite casino. First, there's the full range of games from the casino and familiar surroundings – all reflected online. We'll add new market draws like play-for-fun and fast download Java options that increase ease-of-use, allow players to learn in

a less intimidating environment than at the on-land property and facilitate conversion to play-for-cash sites. New languages and multi-currency ability will increase global penetration. As well, expansion into new gaming verticals like horse racing, sports betting, lotteries and bingo will expand entertainment value, and increase revenue potential for CryptoLogic and our licensees.

Today, sports betting and casino gaming represent the largest share of the online gaming industry, but online lotteries are expected to become a dominant option in the coming years. Traditional lotteries are extremely popular with mainstream consumers and garner a higher level of acceptance. As Internet use increases in households, lotteries will gain appeal with the mass market.

"CryptoLogic will leverage its healthy cash reserves to acquire and add complementary technologies, increase user base and expand into new geographies."

RAISING THE STAKES

ONLINE GAMER BY GENDER IN THE U.S. AND WESTERN EUROPE

	1999	2000	2001	2002	2003
Male	75%	70%	66%	62%	58%
Female	25%	30%	34%	38%	42%

SOURCE: DATAMONITOR 1999

But there's more – more that involves bringing traditional marketing disciplines to cyberspace. We need to help casinos understand their players' behavior – choice of games, frequency of play, deposit and bet levels, demographics, geographic segmentation, and more. Interestingly, gender distribution is also beginning to change. Males dominated the early players of online gaming. However, virtual casinos are beginning to draw the attention of the female population. There is an increasing split between the genders, with men favoring table games and women turning to interactive machine games. This information will help licensees develop targeted loyalty programs and personalized services for specific player profiles that will increase each user's

revenue stream. CryptoLogic will lead the development of these sophisticated web-integrated marketing strategies.

To further accelerate growth, CryptoLogic will leverage its healthy cash reserves to acquire and add complementary technologies, increase the user base and expand into new geographies.

Over the next few years, CryptoLogic will evolve rapidly from a pure content provider – delivering great games developed in-house – to a distribution network, leveraging our licensees' brands and player base through additional games developed outside and add synergistic services to provide the best options for entertainment. This strategy prepares CryptoLogic for the next phase in Internet gaming – the mass market.



ENTERTAINMENT

WHAT THE FUTURE HOLDS

CASHING THE CHIPS: BEYOND 2001

What about the long-term future of online gaming? The industry is clearly moving toward mainstream home entertainment. The key will be attracting the recreational players. E-gaming will gain mass appeal and become an enjoyable form of Web leisure. It will become another entertainment option. You can go to the movies, go to a hockey game or get together with your buddies – connected from anywhere in the world – for an online poker game.

The experience widens as you shop at the online casino gift shop. Make a room reservation and book a flight for your next visit. Or use the site as a portal to jump to any horseracing track in the world or place a bet on a sporting event in a different time zone. Why not play the local lottery in any international jurisdiction? Experience it all on your flat digital monitor with 3D realism, surround sound, touch screen and voice recognition.

How does this scenario affect Cryptologic as a business? One issue, and an important one, is the medium for connectivity. No one knows which medium will attract the most subscribers – will it be the PC, wireless devices or interactive TV? In North America, the computer is gaining strong penetration. Europe is eagerly going wireless. But TV remains a big contender – it's everywhere and familiar to many – young, old, male, female.

Faster cable modems and new broadband technology will also enable faster and easier Internet access. Increasing bandwidth and processor speeds will support richer graphics, full motion video and greater interactivity, allowing programmers to develop elaborate multimedia scenarios. Nevertheless, new and improved technologies will accelerate global expansion and deliver an enriching, more engaging Web experience. And Cryptologic will be ready.



"Cryptologic is unfolding its current strategy to become a full-featured gaming entertainment "channel" appealing to the mass market. Opportunities exist to derive revenues from all branches of gaming – casino, racing, sports betting, lotteries and bingo."

WHAT THE FUTURE HOLDS

[continued]

"We expect to continue to set the pace and help shape the future for the next five years. Our corporate evolution and course of action today speak to that long-range vision."

Aside from technology, there is the issue of content. CryptoLogic is unfolding its current strategy to become a full-featured gaming entertainment "channel" appealing to the mass market. Opportunities exist to derive revenues from all branches of gaming – casino, racing, sports betting, lotteries and bingo. Woven into the entertainment fabric will be personalized offers of goods and services for individual players, based on their specific profiles. Loyalty programs will allow specific online players to travel to their favorite casinos and stay for free.

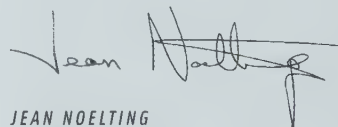
Of course, how fast Internet gaming grows and attracts the masses is obviously dependent upon regulatory change – a step CryptoLogic continues to encourage and lobby for. Just as traditional gaming is subject to regulatory controls, CryptoLogic believes it is inevitable for cyberspace. A regulated environment provides the all-important trust factor for first-time, recreational players.

Without a doubt, Internet gaming is an exciting industry. It is large, global and fast growing. The winners will be

those that can attract and gain a major share of the next generation of occasional players while maintaining its core user group, deliver mass entertainment and drive high-margin growth.

CryptoLogic helped pioneer the new age of online gaming five years ago. We expect to continue to set the pace and help shape the future for the next five years. Our corporate evolution and course of action today speak to that long-range vision.

One area not expected to change is CryptoLogic's business model. Based on recurring revenues and continuous cash flow, it is superior to most "new economy" and many "old economy" models. Expansion of the player base and gaming range, and compliance-ready solutions simply raise the barriers to entry. We will ensure that CryptoLogic and our licensees are in the upper tier of profitability from our mutual arrangements. Profitability will never lose its appeal.



JEAN NOELTING
PRESIDENT & CEO



THE WINNERS WILL BE THOSE BUSINESSES THAT CAN GAIN A MAJOR SHARE OF THE NEXT GENERATION OF OCCASIONAL PLAYERS, DELIVER MASS ENTERTAINMENT AND DRIVE HIGH-MARGIN GROWTH.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All currency amounts are in U.S. dollars unless otherwise indicated.

CryptoLogic Inc. ("the Company") is an Internet software development and licensing company with leading proprietary commerce-enabling technology that permits secure, reliable, efficient, and rapid financial transactions over the Internet. To date, it has focused its activities on developing proprietary software technology for the Internet gaming industry. The Company has licensed its software products to companies around the world who hold Internet gaming licenses issued by governments where the licensees are domiciled. Due to the long-term nature of its software licences and support services, which extend up to five-year contracts with automatic renewal provisions, over 95% of the Company's revenue is of a recurring nature.

In the fiscal year ended December 31, 2000, CryptoLogic reported net income of \$15.5 million on consolidated revenue of \$37.6 million. This compares to net income of \$20.6 million, after a \$0.6 million gain on the sale of discontinued operations, on consolidated revenue of \$32.7 million in 1999. Revenue growth was mainly attributable to an 11% increase in licensing and support fees from new and existing licensees to \$34.4 million. Another contributing factor was the near doubling of interest income to \$3.3 million on the Company's larger interest-bearing cash balances, which totaled \$56.7 million at year-end.

Although total revenue year-over-year increased by 15%, performance fell below expectations. 2000 was a year of transition, investing in technology and infrastructure

to support the Company's focus on larger international clients. Modest revenue growth was largely due to the delayed release of the Company's version 4.0 Internet gaming software, initially scheduled in early 2000, but released in mid-year owing to the heightened sophistication of the technology. Increased expenditures in key areas of the Company, most notably in software development, support and compliance costs, were chiefly responsible for the 23% decline in recurring income in 2000 and net margin slippage to 41% in 2000. However, the revenue impact of the delayed release was predominately a timing issue, with regained momentum as version 4.0 revenue ramped up in the fourth quarter of 2000 and into 2001.

Revenue

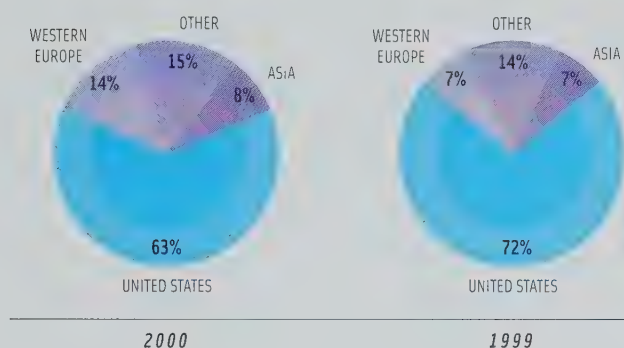
Consolidated revenue rose 15% to \$37.6 million in 2000, mainly from software licensing, support, and one-time customization fees that rose 11% to \$34.4 million. These fees were bolstered by the growth performance of existing customers, the early success of new customers added during the year, as well as by the first full year's contribution from the four new licensing agreements signed in 1999.

Revenue growth in 2000 was also driven by an increase in interest income on the Company's interest-bearing cash balances to \$3.3 million in 2000 from \$1.7 million in 1999. This increase reflects a higher cash level throughout the year plus the impact of the higher interest rate environment.

Substantially all of the Company's revenue is earned from ongoing licensing and support of its gaming software. Licensing and support fees alone accounted for 91% of

"Over 95% of the Company's revenue is of a recurring nature."

NEW REGISTERED USERS BY MAJOR GEOGRAPHIC REGION



consolidated revenue in 2000 versus 95% in 1999. The year-over-year decline is attributable to the increased contribution of interest income to the Company's revenue mix and modest revenue growth in 2000.

Licensing and support revenue is comprised primarily of recurring revenue due to the relatively long-term nature of the Company's contracts, as well as a nominal component of one-time customization fees. Recurring revenue represented 98% of licensing and support revenue in 2000 and provides a long-term revenue stream.

As at December 31, 2000, the Company had 20 licensing agreements in place with customers around the globe. The maturity of these contracts can extend to 5 years.

Geographically, U.S. consumers in 2000 accounted for 63% of new registered users, declining from 72% in the prior year. Also notable in the year was the doubling of European users to 14% of new registered users, which was in large part due to William Hill's strong European customer base. The new user mix is expected to continue to slant increasingly toward non-U.S. users in the future as the Company expands its international reach and Internet usage continues to rise in Europe and Asia.

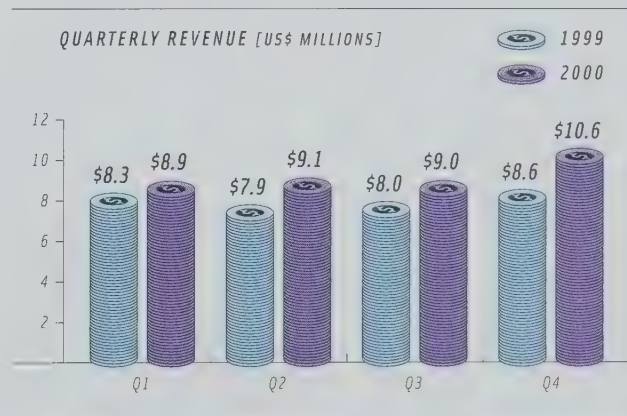
Although revenue year-over-year increased by 15%, revenue growth fell short of Management's target due to

the delayed release of the Company's version 4.0 Internet gaming software. Initially scheduled for release in early 2000, version 4.0 was not market-ready until June owing to the heightened complexity of this upgrade. Furthermore, the ensuing 30-60 day time lag for licensees' marketing campaigns to take effect following the introduction of a new version was a contributing factor. As a result, version 4.0 did not begin to make an impact on CryptoLogic's revenue until the fourth quarter, when revenue rose 18% over the previous quarter and 24% over the fourth quarter of 1999.

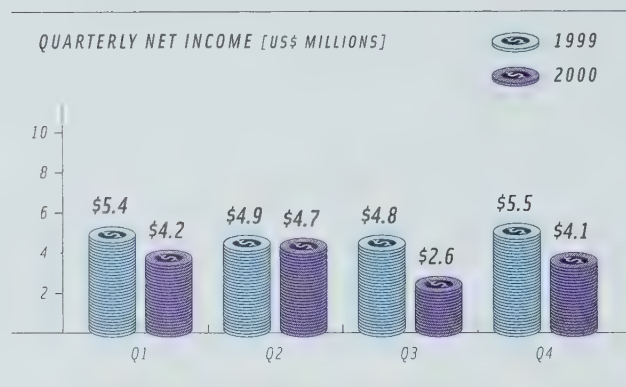
The impact of version 4.0 on the Company's revenue, combined with the growing influence of land-based, brand name licensees such as William Hill, Jupiters and Worest Group, is expected to become increasingly evident in 2001.

Net Income

The Company maintained its track record of solid profitability, although net income was \$15.5 million in 2000, down almost 25% from \$20.6 million in 1999. Net income in 1999 included a \$0.6 million gain on the sale of the Company's Internet video gaming magazine



MANAGEMENT'S DISCUSSION AND ANALYSIS



business, Gamesmania. The higher costs associated with version 4.0 coincident with the launch expenditures of new licensees were the primary reasons for the decline in earnings, as these costs were incurred without a corresponding revenue stream until the last few months of the year. Significant investments were also made in compliance, expanding infrastructure and operations to support the Company's larger size customers.

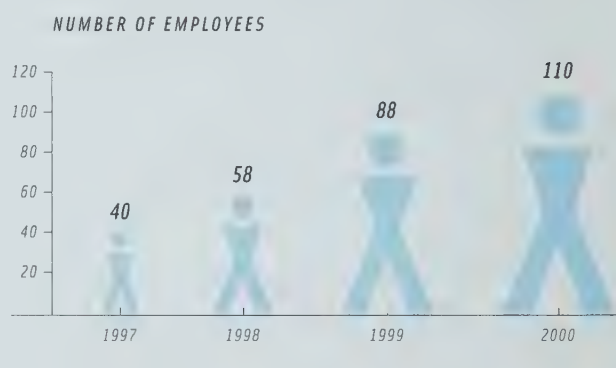
Earnings per share (EPS) in 2000 were \$1.18, or \$1.04 on a fully diluted basis, versus basic and fully-diluted EPS of \$2.40 (\$2.34 from continuing operations) and \$1.35 (\$1.31 from continuing operations), respectively, in 1999. The dramatic decline in basic EPS was largely attributable to a 57% increase in the number of shares outstanding, mainly reflecting the exercise of 5.4 million Class A warrants in 2000. Importantly, the fully diluted number of shares was essentially unchanged year-over-year.

Software Development and Support Costs

Software development and support costs include all personnel, licensee support and customer service costs as well as compliance-related expenditures. These costs rose 78% to \$16.4 million in 2000 from \$9.2 million in 1999. The increase was fuelled by the Company's strategic investment in several key undertakings to support its larger client base and drive long-term growth. These initiatives included:

- the product development and market launch of version 4.0;
- an expanded customer service facility in Antigua, commencing full operations in 2000;
- the opening of a new office in the United Kingdom, largely to support marketing efforts for William Hill and future European clients;
- a dedicated licensee support group; and
- the creation of a dedicated compliance team.

At year-end, the Company had 110 employees, up 25% from 88 at the end of 1999. The additional 22 employees in 2000 were allocated to critical business areas, including 7 technical specialists; 5 dedicated licensee support personnel; and 7 members of the new regulatory compliance team. Specific focus areas were created and expanded consistent with the Company's growing emphasis on compliance efforts and customer care. Product development staff continued to be a major group, representing 46% of total employees in 2000. Second to the IT personnel were customer support and licensee services groups, accounting for 26%.



"CryptoLogic added 22 employees in 2000. Specific focus areas were created and expanded consistent with the Company's growing emphasis on compliance efforts and customer care."

Also included in software development and support costs in 2000 are compliance expenditures related to readying the Company's products to be one of a few software solutions certified for a regulated online environment – similar to the high standards land-based casinos comply with today. Compliance costs will continue in 2001 and the certification project is expected to be complete by mid-year.

General and Administrative Costs

General and administrative costs approximately doubled to \$3.0 million in 2000 from \$1.5 million in 1999. Key factors contributing to the increase were larger facilities for a growing workforce, heightened international business development and one-time costs associated with listing on Nasdaq.

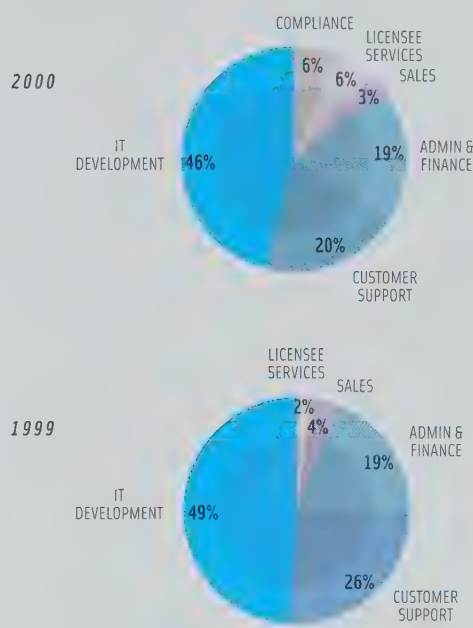
Finance Costs

Finance costs include bank charges for operating bank accounts and letters of credit. All letters of credit are secured by cash deposits included in the restricted cash balance. In 2000, these costs doubled to \$0.2 million due to increased letters of credit to support higher processing volumes and expanded international credit card company relationship requirements.

Amortization

Amortization expense was \$0.2 million in 2000, up from \$0.16 million in 1999 due to the Company's increased investment in computer equipment, office equipment, and leasehold improvements.

EMPLOYEE BREAKDOWN



Income Taxes

Income taxes for fiscal 2000 were \$2.3 million, versus \$1.7 million in 1999. This translates into an effective tax of 13% compared to only 8% in 1999. The increase reflects a taxable income mix that was higher in Canada compared to income derived from foreign subsidiaries. In addition, interest income, which is subject to Canadian tax, was 91% higher in 2000 due to an increased cash position as compared to 1999.

On an ongoing basis, the Company's effective tax rate differs from Canadian statutory rates due to lower tax rates applicable to the Company's foreign subsidiaries.

Discontinued Operations

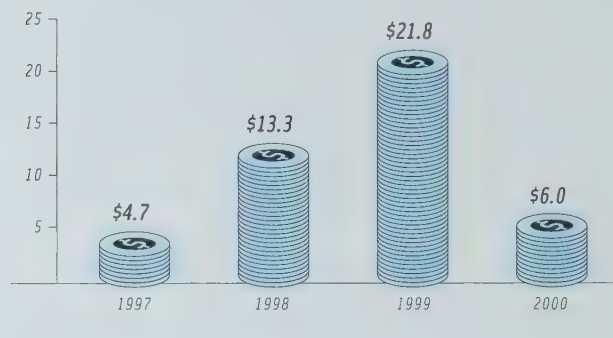
The gain on discontinued operations of \$0.6 million in 1999 reflects the net gain on the disposal of the

Company's Internet video gaming magazine business, Gamesmania Inc. There were no discontinued operations in fiscal 2000.

In 2000, CryptoLogic announced its intention to spin out its wholly-owned e-cash subsidiary for mainstream applications beyond gaming. Accordingly, the Company's e-cash operations were classified as a discontinued operations in its third quarter financial statements. However, due to weak capital market conditions in the technology sector and the Company's strategic decision to concentrate on its burgeoning gaming software business, CryptoLogic has subsequently decided to maintain its e-cash business in its current form. As such, this business was reclassified as a continuing operation on the Company's year-end financial statements. While its e-cash business will not be a key focal point in the near term, the Company will seek opportunities to develop its e-cash applications for new gaming verticals – such as horse racing, bingo and lotteries.

A strong cash flow model gives the Company an excellent financial base to fund strategic initiatives and synergistic acquisitions consistent with its growth strategy. At December 31, 2000, the Company had \$42.7 million in cash and cash equivalents – up 4% from \$41.0 million at the end of 1999. The Company also had further cash of \$14.0 million as reserves with its banker to secure letters of credit granted to foreign banks that process credit card transactions on behalf of the Company. This latter amount is classified as Restricted Cash on the Company's balance sheet and is not available for general corporate purposes as long as the letters of credit remain

CASH FLOW FROM OPERATIONS [US\$ MILLIONS]



outstanding. Restricted Cash increased to \$14.0 million from \$5.0 million at the end of 1999 due to higher processing volumes and expanded international credit card company relationships.

The Company is debt-free with no outstanding loans.

CryptoLogic's foreseeable cash needs are expected to be funded by cash generated from its existing cash resources, unutilized debt capacity, and operating cash flow.

Operating cash flow remained strong at \$6.0 million in 2000, although down from \$21.8 million in 1999. Reduced operating cash flow was mainly due to an \$9.0 million addition to Restricted Cash, a \$4.5 million decline in net income from continuing operations, and a \$1.5 million increase in accounts receivable year-over-year. This rise in accounts receivable was largely a timing issue, which was subsequently collected after the year-end.

The exercise of 5.4 million Class A warrants at Cdn\$0.50 per warrant contributed Cdn\$2.7 million (approximately US\$1.8 million) to cash flow in 2000. These proceeds, together with operating cash flow, funded the Company's repurchase and cancellation of 490,300 common shares under its share buyback program at a total cost of \$6.7 million. A further \$0.6 million was spent for miscellaneous capital expenditures such as computer equipment, office equipment and leasehold improvements.

"A strong cash flow model gives the Company an excellent financial base to fund strategic initiatives and synergistic acquisitions."

The Company's capital market profile and the diversity of its investor base continued to improve in 2000. In January of 2000, a number of prominent U.S. institutional investors purchased 2.1 million common shares of CryptoLogic to hold approximately 19% of the Company's then outstanding common shares. Subsequently, in March of 2000, the Company commenced trading on the Nasdaq National Market. Additionally, the Company was added to the TSE 300 in 2000 – a bellwether index of Canada's 300 largest companies. At December 31, 2000, CryptoLogic had a shareholder base of approximately 7,000 individuals and institutions – more than three times its shareholder base a year earlier.

Management views the repurchase of shares as a sound investment and appropriate means to enhance shareholder value. As a result, the Company renewed its share buyback program in May of 2000 for the purchase of up to 561,000 common shares or 5% of the common shares then outstanding. During the May 2000 to May 2001 plan, the Company has bought back and cancelled 454,400 shares up to January 25, 2001, or 81% of the authorized amount. During fiscal 2000, CryptoLogic repurchased and cancelled 490,300 common shares through the buyback program at a total cost of \$6.7 million. Management intends to renew the buyback program in 2001.

The Company operates in a rapidly changing environment that involves numerous risks, many of which are beyond the Company's control and which could have a material adverse effect on the Company's business, revenues, operating results and financial condition. The following

discussion highlights some of these risks. In addition, readers should carefully review the risk factors described in the Annual Information Form the Company files with various Securities Commissions.

Government Regulation

The Company and its licensees are subject to applicable laws in the jurisdictions in which they operate. While some jurisdictions have introduced regulations attempting to restrict or prohibit Internet gambling, other jurisdictions, such as several Caribbean countries, Australia, parts of the United States and the United Kingdom and Argentina have taken the position Internet gaming is legal and/or have adopted or are in the process of reviewing legislation to regulate Internet gaming.

As at December 31, 2000, there were more than 50 government jurisdictions around the globe permitting some form of Internet gaming. Generally, the worldwide trend has been for governments to accept and regulate online gaming.

As companies and consumers involved in Internet gaming are located around the globe, including the end-users of the Company's licensees, there is uncertainty regarding exactly which government has jurisdiction or authority to regulate or legislate with respect to various aspects of the industry. Furthermore, it may be difficult to identify or differentiate gaming-related transactions from other Internet activities and link these transmissions to specific users, in turn making enforcement of legislation aimed at restricting Internet gaming activities difficult. However, legislation designed to restrict or prohibit Internet gaming may be adopted in the future in the United States or other jurisdictions.

Australia has been universally recognized as having the most stringent regulation at the state level for Internet gaming. Although in late 2000, a national bill was passed imposing a 12-month moratorium on the licensing of new Internet gaming services retroactive to May 19, 2000 while the federal government conducts an inquiry into the future of Internet gaming in that country. However, this recent development does not impede the Company's progress with its software certification in Australia as work continues with state officials and a government-accredited testing firm. CryptoLogic's certification initiative will increase player protection mechanisms within its technology for a regulatory compliant product and prepares the Company for when the moratorium expires in May of 2001. As well, the Company will have established a framework consistent with Nevada regulation and high ISO standards – a step that will give CryptoLogic a competitive advantage given its view that regulation is inevitable.

Dating back to 1998, legislative proposals to criminalize or prohibit Internet gaming in the United States have failed. In 2000, the Kyl/Goodlatte Bills, which were aimed solely at prohibiting Internet casino operators in the United States and not the players, failed in two congressional sessions and continues to face formidable opposition. Also in 2000, New Jersey and Nevada state legislators began to draft bills aimed at legalizing and regulating online casinos within their jurisdictions. However, in early 2001, Representative Robert Goodlatte announced his intention to reintroduce legislation to ban most forms of Internet gaming in the United States. In the event a new bill is introduced, there can be no assurance as to the impact or success of any legislative proposal.

Existing legislation, including state and federal statutes,

could be construed to prohibit or restrict gaming through the use of the Internet, and there is risk governmental authorities may view the Company's licensees or the Company as having violated such statutes. There is a risk that criminal and civil proceedings could be initiated in such jurisdictions against the Company's licensees or the Company. Such proceedings could involve substantial litigation expense, penalties, fines, diversion of the attention of key executives, injunctions or other prohibitions being invoked against the Company's licensees or the Company. This could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

As electronic commerce further develops, it may generally be the subject of government regulation. As well, current laws, which predate or are incompatible with Internet commerce, may be enforced in a manner that restricts the electronic commerce market. Any such developments could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

Internet Gaming Software and Services

Substantially all of the Company's revenues to date have been derived from the licensing of its Internet gaming software and the support of its associated services. The Company's continued success will depend in large part upon the success of its Internet gaming software and service capabilities.

Competition

Gaming services over the Internet is a relatively new industry, and licensees of the Company's software will

"More than 50 government jurisdictions around the globe permit some form of Internet gaming. The worldwide trend has been governments to accept and regulate online gaming."

compete with existing and more established recreational services and products, in addition to certain other forms of entertainment. The Company's success will depend, among other things, upon its ability to enhance its products and services that keep pace with technological developments, respond to evolving customer requirements and achieve continued market acceptance. The Company competes with several public and private companies that provide electronic commerce and/or Internet gaming software. Any failure by the Company to anticipate or respond adequately to technological developments and customer requirements, any significant delays in product development or introductions or failure to deliver required services could result in a loss of market share or revenues.

There can be no assurance that other companies including the increasing entry by large, land-based gaming groups, with greater financial and technological resources and service capabilities will not develop electronic commerce software or gaming software for the Internet with better capabilities than the Company's products or that the Company will be able to compete successfully against existing competitors or future entrants into the market. In addition to those known competitors of the Company, it is most likely that several new competitors may be established in the near future, in particular in the electronic commerce software market as the market for electronic commerce develops.

Dependence of Key Licensees

In fiscal 2000, 74% of the Company's revenue is derived from a related group of licensees, which is down from 89% in 1999. As part of the licensing agreement with this main licensee, the Company has the right to assign the

licensee's "brand name" to another licensee if the existing agreement is cancelled or not renewed. The loss of one or more of the Company's key licensees could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

Foreign Operations

It is anticipated that practically all of the Company's revenue will be derived from licensing and support fees in foreign countries. The Company and its licensees are subject to local laws and regulations in those jurisdictions in which they operate. While some jurisdictions have introduced regulations designed to restrict Internet gaming, other jurisdictions have demonstrated acceptance of such activities.

In addition to uncertainty regarding the local legal status of Internet gaming in other jurisdictions, there are certain difficulties and risks inherent in doing business internationally. Changes in the political, regulatory and taxation structure of jurisdictions in which the Company or its subsidiaries operate and in which the licensees' customers are located could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

Reliance on Other Parties

The Company's electronic commerce product for handling transactions over the Internet relies on Internet Service Providers (ISP) to have its licensee's customers and servers communicate with each other. If all of the ISP experienced lengthy service interruptions, it would prevent communication over the Internet and would greatly impair the ability of the Company to carry on business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's ability to process e-commerce transactions depends on bank processing and credit card systems. In order to prepare for certain types of system problems, the Company has developed and tested a formal disaster recovery plan. Any system failure, including network, software or hardware failure, that causes a delay or interruption in the Company's e-commerce services could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

Intellectual Property

The Company relies on a combination of copyright and trade secret laws and contractual provisions to establish and protect its rights in its software and proprietary technology. The Company's competitive position may be affected by its ability to protect its proprietary information. However, because the software industry is characterized by rapid technological change, the Company believes patent, trademark, copyright and other legal protections are less significant to the Company's success than factors such as the knowledge, ability and experience of the Company's personnel, new product and service developments, frequent product enhancements, customer service and ongoing product support.

There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate to deter misappropriation of its technology or independent development by others of technologies that are substantially equivalent or superior to the Company's technology. Any infringement claim or litigation against the Company could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

Electronic Commerce

The use of the Internet for commercial transactions is growing, and the success of the Company's electronic commerce services will depend in large part on the widespread adoption of the Internet for commercial transactions. As the marketplace for electronic commerce is in the development stage, it is subject to frequent and rapid technological changes.

Hiring and Retention of Employees

The Company's future success is dependent on certain key management and technical personnel. The loss of key personnel or the inability to attract and retain highly qualified personnel, consultants or advisors could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

Future Acquisitions

As part of the Company's business strategy, the Company may make acquisitions of, or significant investments in, businesses that offer complementary products, services, and technologies. Any acquisitions or investments will be accompanied by the risks commonly encountered in acquisitions of business. Such risks include, among other things, the difficulty of assimilating the operations and personnel of the acquired business, the potential disruption of management from the Company's business, the inability of management to maximize the financial and strategic position of the Company and acquired businesses, the maintenance of uniform standards, controls, procedures and policies and the impairment of relationships with employees and clients as a result of and integration of new management personnel.

"Management expects to achieve both its 20% revenue growth target and 45% net margin target in the coming year."

Outlook

The outlook bodes well for CryptoLogic and the global online gaming market. With version 4.0 on stream and the expectation of strong organic growth, Management expects to achieve both its 20% revenue growth target and 45% net margin target in the coming year. Both targets should be on schedule as early as the first quarter of 2001.

The Company's expanding roster of international licensees, and particularly land-based casinos such as William Hill, Jupiters, Casino Sur and Kiwi Casino, should contribute positively to CryptoLogic's future performance growth as the virtual gaming operations of these well branded and respected casinos become established in the marketplace. Management's goal is to maintain its focus on select, quality clients, with the brand name recognition and large clientele to successfully launch profitable sites. The Company expects to add three or four additional land-based casinos to its customer list in 2001.

International revenues are expected to represent a growing proportion of consolidated revenue in 2001. The Company's expanding licensee base around the world will expand its international revenues by leveraging its licensees' recognized brand and clientele in targeted geographic regions. In keeping with Management's view of the higher growth areas of the online gaming industry, new marketing efforts will be focused primarily on Europe and secondarily on Asia in 2001.

Of course, positive developments in markets such as the United States will still be keenly followed. In 2000, bills aimed at legalizing and regulating online casinos have been initiated in New Jersey and Nevada. Additionally,

major Las Vegas operators such as MGM Mirage and Harrah's announced play-for-fun/play-for-prizes casino sites to position themselves for the regulation of Internet gaming. As a leader on the global stage, the potential opening of the American market to Internet gaming represents a significant growth opportunity for CryptoLogic.

Additionally, the Company expects direct investment of a further \$1.0-1.5 million on its Australian regulatory compliance in 2001 in order to optimally position itself to enter new markets – including the lucrative U.S. market and other geographies as evolving regulations permit. Management believes that regulation will be a key driver to accelerate market growth.

In 2001, the Company intends to deploy a portion of its considerable cash holdings to invest in marketing and licensee support talent. Stepped-up customer support capabilities may include opening other international offices to serve as regional hubs for land-based licensees in the future. It will also undertake product development initiatives to continue to broaden the features and functionality of its gaming software, with emphasis on tools for casino management, player base analysis, multi-lingual and multi-currency capabilities – the next version of which is scheduled for release in the third quarter of 2001.

CryptoLogic will also be considering synergistic acquisitions, with a focus on opportunities that will extend the Company into attractive, new gaming verticals such as sports betting, racing, lotteries, and bingo segments in order to expand its product offering. Although still in the early stages of its investigations, Management is targeting acquisitions to be announced as early as the second half of 2001.



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of CryptoLogic Inc. and all of the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with generally accepted accounting principles. These statements include some amounts that are based on best estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

CryptoLogic's policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of a majority of outside Directors. The committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the Company's annual consolidated financial statements, the external auditors' report and other information in the Annual Report. The committee reports its findings to the Board for consideration by the Board when it approves the financial statements for issuance to the shareholders.

On behalf of the shareholders, the financial statements have been audited by KPMG LLP, the external auditors, in accordance with generally accepted auditing standards. KPMG LLP has full and free access to the Audit Committee.



JEAN NOELTING
PRESIDENT AND CEO



HARVEY SOLURSH
CHIEF FINANCIAL OFFICER

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of CryptoLogic Inc. as at December 31, 2000 and 1999 and the consolidated statements of income, retained earnings, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected the results of operations for the years ended December 31, 2000 and 1999 to the extent summarized in note 13 to the consolidated financial statements.

KPMG LLP

Chartered Accountants

TORONTO, CANADA

JANUARY 25, 2001

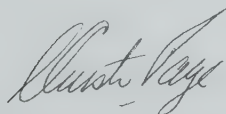
CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF U.S. DOLLARS) AS AT DECEMBER 31, 2000 AND 1999

	2000	1999
Current assets:		
Cash and cash equivalents	\$ 42,696	\$ 40,977
Restricted cash (note 2)	14,000	5,040
Reserve with a credit card processor (note 3)	1,217	631
Accounts receivable	1,435	298
Prepaid expenses and other	839	1,020
	60,187	47,966
Investments (note 4)	1,430	1,080
Capital assets (note 5)	839	515
	\$ 62,456	\$ 49,561
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,154	\$ 1,563
Accrued liabilities	876	289
Income taxes payable	2	777
Funds held on deposit	1,814	1,092
	4,846	3,721
Shareholders' equity:		
Capital stock (note 6)	6,477	3,665
Retained earnings	51,133	42,175
	57,610	45,840
Commitments (note 8)		
	\$ 62,456	\$ 49,561

See accompanying notes to consolidated financial statements.

On behalf of the Board:



AUSTIN PAGE DIRECTOR



ANDREW RIVKIN DIRECTOR

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE DISCLOSURE) YEARS ENDED DECEMBER 31, 2000 AND 1999		2000	1999
Revenue		\$ 34,390	\$ 30,980
Interest income		3,254	1,704
		37,644	32,684
Expenses:			
Software development and support		16,367	9,239
General and administrative		3,024	1,468
Finance		201	99
Amortization		227	157
		19,819	10,963
Income before income taxes		17,825	21,721
Income taxes (note 10)		2,340	1,709
Income from continuing operations		15,485	20,012
Gain on discontinued operations (note 11)		-	549
Net income		\$ 15,485	\$ 20,561
Income per common share (note 9):			
Basic:			
Income per common share from continuing operations		\$ 1.18	\$ 2.34
Income per common share		1.18	2.40
Fully diluted:			
Income per common share from continuing operations		\$ 1.04	\$ 1.31
Income per common share		1.04	1.35

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN THOUSANDS OF U.S. DOLLARS) YEARS ENDED DECEMBER 31, 2000 AND 1999	2000		1999	
	Number of shares	Stated value	Number of shares	Stated value
	(000's)		(000's)	
Common shares:				
Balance, beginning of year	8,974	\$ 3,643	8,474	\$ 2,820
Repurchase of shares (note 6(b))	(490)	(162)	(48)	(16)
Exercise of stock options	195	1,143	148	704
Exercise of Class A purchase warrants	5,400	1,831	400	135
	14,079	6,455	8,974	3,643
Series C warrants:				
Balance, beginning and end of year	160	22	160	22
Total capital stock		6,477		3,665
Retained earnings, beginning of year		42,175		22,170
Net income		15,485		20,561
Excess of repurchase price of common shares over stated value (note 6(b))		(6,527)		(556)
		51,133		42,175
Total shareholders' equity		\$ 57,610		\$ 45,840

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF U.S. DOLLARS) YEARS ENDED DECEMBER 31, 2000 AND 1999		2000	1999
Cash flows from (used in) operating activities:			
Income from continuing operations		\$ 15,485	\$ 20,012
Amortization which does not involve cash		227	157
Change in operating assets and liabilities:			
Restricted cash		(8,960)	(650)
Reserves and deposits with credit card processors		(586)	1,371
Accounts receivable		(1,487)	75
Prepaid expenses and other		181	(479)
Accounts payable		591	306
Accrued liabilities		587	(29)
Income taxes payable		(775)	696
Funds held on deposit		722	324
		5,985	21,783
Cash flows used in discontinued operations		-	(336)
		5,985	21,447
Cash flows from (used in) financing activities:			
Issue of capital stock		2,974	839
Repurchase of common shares		(6,689)	(572)
		(3,715)	267
Cash flows from (used in) investing activities:			
Proceeds on sale of Gamesmania		-	475
Additions to capital assets		(551)	(342)
Acquisition of assets of Gamesmania		-	(270)
		(551)	(137)
Increase in cash and cash equivalents		1,719	21,577
Cash and cash equivalents, beginning of year		40,977	19,400
Cash and cash equivalents, end of year		\$ 42,696	\$ 40,977
Supplemental cash flow information:			
Income taxes paid		\$ 3,115	\$ 1,013
Interest received		3,641	1,343
Non-cash acquisition of investments		350	680

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE DISCLOSURE AND WHERE INDICATED OTHERWISE) YEARS ENDED DECEMBER 31, 2000 AND 1999

CryptoLogic Inc. (the "Company") is a software development company with leading proprietary commerce-enabling technology, permitting secure, reliable, high-speed, private financial transactions over the Internet. The Company's software is currently being used for electronic commerce and online gaming. All of the Company's revenue is earned in U.S. dollars from licensing fees and support services from licensees located outside of North America. During the year, 74% (1999 - 89%) of the Company's revenue was earned from three licensees which form a related group. The Company reports its results in U.S. dollars.

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. A summary of significant accounting policies is set out below:

(a) *Basis of presentation:*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

(b) *Revenue recognition:*

Revenue from providing software and support services to licensees is recognized on a daily basis based on the agreements with the licensees. Revenue from the customization of the software graphics, sound and texts to the specifications of the licensees is recognized when the software application is available for use on the Internet.

(c) *Cash and cash equivalents:*

Cash and cash equivalents include highly liquid investments with maturity dates of 90 days or less, and are stated at cost, which approximates market value.

(d) *Investments:*

Investments are stated at cost. If there is a loss in value of an investment that is other than a temporary decline, the investment will be written down to recognize the loss.

(e) *Capital assets:*

Capital assets are stated at cost less accumulated amortization. Amortization, based on the estimated useful lives of the assets, is provided using the following methods and annual rates:

Asset	Basis	Rate
Computer equipment	Diminishing balance	30%
Office furniture and equipment	Diminishing balance	20%
Computer software	Straight line	100%
Leasehold improvements	Straight line	Term of lease

(f) *Research and development:*

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. To December 31, 2000, the Company has not deferred any software development costs.

(g) *Income taxes:*

The Company uses the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

(h) *Stock-based compensation:*

The Company has a stock option plan for directors, officers, other key employees and consultants which is described in note 7. The Company follows the intrinsic value method of accounting for stock options. Under this method, compensation expense is recognized over the vesting period of stock options that are granted with an exercise price below the fair market value of the underlying common shares at the date of grant. Consideration received by the Company on the exercise of stock options is recorded as share capital.

(i) *Use of estimates:*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual amounts could differ from those estimates.

(j) *Foreign currency translation:*

Monetary items denominated in other than U.S. dollars are translated into U.S. dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in net income.

RESTRICTED CASH

Restricted cash is held by the Company's bank as security for letters of credit of equivalent amounts granted to foreign banks that process credit card transactions.

CREDIT CARD PROCESSOR

The terms of the agreement with a credit card processor require the Company to maintain U.S. dollar-denominated funds for reserves in non-interest-bearing accounts with this processor.

	2000	1999
Investment in Creditcards.com	\$ 400	\$ 400
Investment in HIP Interactive Corp.	680	680
Investment in Forty-Ninth Parallel Inc.	350	—
	\$ 1,430	\$ 1,080

Creditcards.com is in the business of credit card transaction processing, primarily focused on Internet-based merchants.

The investment in HIP Interactive Corp. ("HIP") arose on the sale of Gamesmania Inc. ("Gamesmania") on December 9, 1999 (note 11). The investment in HIP is comprised of 1,000,000 common shares and 250,000 warrants. Under the terms of the agreement, 998,000 common shares are held by the Company and will be released from escrow as follows: 149,700 common shares on March 10, 2001; 282,733 common shares on March 10, 2002; 282,733 common shares on March 10, 2003; and 282,834 common shares on March 10, 2004. Each warrant entitles the Company to purchase one common share of HIP for Cdn. \$1.00 and expires on December 9, 2002. HIP primarily is in the e-commerce business selling video games and consumer PC software.

On November 3, 2000, the Company acquired common shares in Forty-Ninth Parallel Inc. in settlement of \$350,000 owed to the Company by Forty-Ninth Parallel Inc. Forty-Ninth Parallel Inc. is a start-up company that is in the business of advising on mergers and acquisitions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL ASSET

2000	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 851	\$ 348	\$ 503
Office furniture and equipment	242	54	188
Computer software	389	389	–
Leasehold improvements	223	75	148
	\$ 1,705	\$ 866	\$ 839

1999	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 590	\$ 200	\$ 390
Office furniture and equipment	94	23	71
Computer software	387	387	–
Leasehold improvements	83	29	54
	\$ 1,154	\$ 639	\$ 515

(a) Authorized:

Unlimited common shares

(i) Class A common share purchase warrants:

The holders of the Class A common share purchase warrants were entitled to purchase up to 5,800,000 common shares at a price of Cdn. \$0.50 per share. These warrants were exercisable, in whole or in part, at any time and from time to time, on or before January 2, 2001. During the year, the remaining 5,400,000 (1999 – 400,000) common shares were issued under the terms of the warrants. As at December 31, 2000, no Class A common share purchase warrants were outstanding.

(ii) Series C warrants:

Each warrant entitles the holder to purchase one common share at a price of Cdn. \$5.00 per share for a five-year period, expiring February 10, 2002. As at December 31, 2000, there were 160,000 (1999 – 160,000) Series C warrants outstanding.

(b) Normal course issuer bid:

In May 1999, the Board of Directors approved the repurchase and cancellation of up to 425,000 of the Company's outstanding common shares for the period commencing May 13, 1999 and ending on May 12, 2000. During the current fiscal year, the Company repurchased and cancelled 145,500 (1999 – 48,000) common shares for a total cost of \$2,752,000 (1999 – \$572,000), of which \$2,703,000 (1999 – \$556,000), representing the excess of purchase price over stated value, has been charged to retained earnings.

In May 2000, the Board of Directors approved the repurchase and cancellation of up to 561,000 of the Company's outstanding common shares for the period commencing May 17, 2000 and ending on May 16, 2001. During the year, the Company repurchased and cancelled 344,800 common shares for a total cost of \$3,937,000, of which \$3,824,000, representing the excess of purchase price over stated value, has been charged to retained earnings. Subsequent to December 31, 2000, the Company has repurchased 109,600 common shares for a total cost of \$1,119,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

K O P T I O N S

Under the stock option plan, the Company can grant options to directors, officers, other key employees and consultants to purchase common shares. The plan, which was amended on May 25, 2000, provides that a maximum of 2,300,000 common shares may be issued. The exercise price of the options may not be less than the fair market value of the underlying common shares on the date of grant. Options typically vest over a period of three or four years and the term of the options may not exceed five years.

Details of stock option transactions are as follows:

(Cdn. \$)	2000		1999	
	Number of options	Weighted average exercise prices of options	Number of options	Weighted average exercise prices of options
Options outstanding, beginning of year	1,070,950	\$ 11.88	949,800	\$ 9.93
Granted	1,661,475	18.02	471,600	17.15
Exercised	(195,350)	8.62	(147,517)	7.06
Forfeited	(27,900)	23.37	(202,933)	18.52
Options outstanding, end of year	2,509,175	16.06	1,070,950	11.88
Options exercisable, end of year	447,968	\$ 11.62	421,045	\$ 8.87

In addition, 600,000 options were issued during December 2000, which are subject to shareholders' approval at the annual general meeting.

(Cdn. \$)	Options outstanding as at December 31, 2000		Options exercisable as at December 31, 2000	
	Number outstanding	Weighted average remaining life [years]	Number exercisable	Weighted average exercise price
Range of exercise price				
\$ 5.00 - 10.00	441,100	1.29	270,668	\$ 7.52
\$ 10.01 - 15.00	1,322,125	4.36	700	14.07
\$ 15.01 - 20.00	350,000	2.21	141,000	17.06
\$ 20.01 - 25.00	67,100	2.27	35,600	21.21
\$ 25.01 - 30.00	25,000	3.19	—	—
\$ 30.01 - 35.00	131,800	3.57	—	—
\$ 35.01 - 40.00	8,000	3.21	—	—
\$ 40.01 - 45.00	119,050	3.15	—	—
\$ 45.01 - 50.00	—	—	—	—
\$ 50.01 - 55.00	24,000	3.17	—	—
\$ 55.01 - 60.00	—	—	—	—
\$ 60.01 - 65.00	21,000	3.80	—	—
	2,509,175	3.33	447,968	\$ 11.62

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 COMMITMENTS

The Company has entered into lease agreements for premises expiring at various periods up to April 30, 2004. The future minimum annual rental payments on the operating leases are as follows:

2001	\$ 473
2002	360
2003	364
2004	122

Income per common share is calculated on the basis of using the weighted average number of common shares outstanding during the year.

Fully diluted income per share reflects income that would have been reported had all warrants, options and conversion rights been exercised at the beginning of the year, except for options issued during the year which are calculated on a weighted average basis.

	2000	1999
	(000's)	
Weighted average number of common shares outstanding	13,103	8,570
Weighted average number of common shares outstanding – fully diluted	15,332	15,420

INCOME TAXES

The income tax provision differs from amounts which would be obtained by applying the Canadian statutory income tax rate to the income before income taxes. The following explains the major differences:

	2000	1999
Income before income taxes and discontinued operations	\$ 17,825	\$ 21,721
Income taxes based on a statutory rate of 43.94% (1999 – 44.6%)	\$ 7,833	\$ 9,688
Increase (decrease) in income taxes resulting from:		
Lower effective income tax rates of foreign subsidiaries	(6,322)	(8,090)
Non-recognition of tax benefit of losses	404	65
Other	425	46
Actual income taxes	\$ 2,340	\$ 1,709

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2000 and 1999 are as follows:

	2000	1999
Future tax assets:		
Non-capital tax losses carried forward	\$ 440	\$ 81
Deferred financing charges	63	86
Capital assets	(16)	(57)
Reserves not deductible for income taxes	50	—
	537	110
Less valuation allowance	537	110
Net future tax assets	\$ —	\$ —

There are approximately \$1,100,000 of losses carried forward to offset taxable income and expire between 2005 and 2040.

On January 5, 1999, the Company's wholly-owned subsidiary acquired the assets of Gamesmania for \$270,000. The purchase price was allocated to computer equipment and acquired technology.

In December 1999, the Company decided to discontinue its Internet video gaming magazine business segment (Gamesmania). On December 9, 1999, the Company sold all the shares of Gamesmania to HIP for consideration of \$1,155,000 (Cdn. \$1,703,000), consisting of cash of \$475,000 (Cdn. \$700,000), 1,000,000 common shares of HIP and 250,000 warrants of HIP (note 4).

Summary financial information of the business segment is as follows:

	2000	1999
Revenue	\$ —	\$ 104
Loss from discontinued operations, net of income tax recovery of nil	\$ —	\$ (167)
Gain on disposal of discontinued operations, net of income tax expense of \$275 in 1999	—	716
	\$ —	\$ 549

IF FINANCIAL INSTRUMENTS

The carrying values of financial instruments, which consist of cash and cash equivalents, restricted cash, accounts receivable, reserves and deposits with credit card processors, funds held on deposit and accounts payable and accrued liabilities, approximate their fair values due to the short-term nature of these instruments.

The fair value of long-term investments in HIP approximates its carrying value. The fair value of remaining long-term investments is not determinable as the companies are privately held.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP"):

The Company's consolidated balance sheets, consolidated statements of income and changes in shareholders' equity and cash flows have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which conform, in all material aspects applicable to the Company, with generally accepted accounting principles in the United States ("U.S. GAAP") during the years presented. Additional disclosures required under U.S. GAAP are as follows:

(a) *Stock options expense:*

Under U.S. GAAP, there are alternative methods available for accounting for employee stock options, Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options. The determination of compensation expense using the intrinsic value method as specified under APB 25 is not materially different from the compensation expense determined under Canadian GAAP.

SFAS 123 requires the disclosure of pro forma net income and earnings per share had the Company adopted the fair value method as of the beginning of its 1996 fiscal year. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

The Company's calculations for options granted were made using the Black-Scholes option pricing model using a dividend yield of 0% and the following weighted average assumptions:

	2000	1999
Risk-free interest rate	6.0%	5.43%
Expected volatility	100%	106%
Expected life of options in years	3	3

Had compensation expense been determined based on the fair value of the awards at the grant dates in accordance with the methodology prescribed in SFAS 123, the Company's net income and earnings per share under U.S. GAAP for fiscal 2000 and 1999 would have been changed to the following pro forma amounts:

	2000		1999	
	As reported	Pro forma	As reported	Pro forma
Net income – U.S. GAAP	\$ 15,485	\$ 12,521	\$ 20,561	\$ 19,298
Net income per share – U.S. GAAP:				
Basic	\$ 1.18	\$ 0.95	\$ 2.40	\$ 2.25
Diluted	1.03	0.83	1.40	1.31

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

S GENERALLY ACCEPTED ACCOUNTING

The effects on pro forma disclosure of applying SFAS 123 are not likely to be representative of the effects on pro forma disclosure in future years.

(b) *Calculation of earnings per share:*

Under both U.S. and Canadian GAAP, basic earnings per share are computed by dividing the net income for the year available to common shareholders as measured by the respective accounting principles (numerator), by the weighted average number of common shares outstanding during that year (denominator). Basic earnings per share excludes the dilutive effect of potential common shares.

Fully diluted earnings per share under Canadian GAAP and diluted earnings per share under U.S. GAAP give effect to all potential common shares outstanding during the year. Under Canadian GAAP, fully diluted earnings per share are calculated assuming that the proceeds from the exercise of stock options are invested at an appropriate rate of return, and an imputed interest amount is added to net income for the year. The number of fully diluted shares outstanding represents the weighted average maximum number of potential common shares outstanding. Under U.S. GAAP, the weighted average number of diluted shares outstanding is calculated assuming that the proceeds from stock options are used to repurchase common shares at the average share price in the year. No adjustment is made to net income for imputed interest in calculating diluted earnings per share under U.S. GAAP.

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation under U.S. GAAP as required by SFAS 128 (in thousands except per share amounts):

	2000	1999
Basic net income per share calculation:		
Numerator for basic net income per share:		
Net income – U.S. GAAP	\$ 15,485	\$ 20,561
Denominator for basic net income per share:		
Weighted average common shares	13,103	8,570
Basic net income per share	\$ 1.18	\$ 2.40
Diluted net income per share calculation:		
Numerator for diluted net income per share:		
Net income – U.S. GAAP	\$ 15,485	\$ 20,561
Denominator for diluted net income per share:		
Weighted average common shares	13,103	8,570
Weighted average stock options and warrants	2,393	6,850
Common shares that could be purchased assuming that the proceeds from stock options and warrants are used to repurchase common shares at the average share price	(426)	(744)
	15,070	14,676
Diluted net income per share	\$ 1.03	\$ 1.40

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") [CONTINUED]:

(c) *Comprehensive income:*

In June 1997, the Financial Accounting Standards Board issued Statement No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for the reporting and disclosure of comprehensive income and its components in financial statements. Components of comprehensive income or loss include net income or loss and all other changes in other non-owner changes in equity, such as the change in the cumulative translation adjustment and the unrealized gain or loss for the year on "available-for-sale" securities. For all periods presented, comprehensive income is the same as net income.

(d) *Recent accounting pronouncements:*

FAS 133, "Accounting for Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires derivative instruments to be recognized in the balance sheet at fair value. Changes in the fair value of derivative instruments are recognized in earnings in the period of change, unless they are designated as hedging instruments. FAS 133 is required to be adopted in January 2001. The adoption of this new accounting standard did not materially affect the Company's results of operations or shareholders equity.

The Securities and Exchange Commission ("SEC") issued SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB 101 summarized certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. SAB 101 will be effective for the Company in the last quarter of fiscal year 2000. Management believes that its revenue recognition policy is consistent with the guidance of SAB 101.

In March 2000, FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation – an Interpretation of Accounting Principles Board ("APB") Opinion No. 25." FIN 44 clarifies the following: the criteria for determining whether a plan qualifies as a non-compensatory plan; the accounting consequences of various modifications to the terms of the previously fixed stock options or awards; and the accounting for an exchange of stock compensation awards in a combination. FIN 44 is effective July 1, 2000, but certain conclusions in FIN 44 cover specific events that occurred after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have a material impact on the Company's financial position or results of operations for fiscal 2000.

CORPORATE DIRECTORY

DIRECTORS & OFFICERS

AUSTIN PAGE	CHAIRMAN, DIRECTOR
ANDREW RIVKIN	DIRECTOR
MARK RIVKIN	DIRECTOR
DAVID CYNAMON	DIRECTOR
DENNIS WING	DIRECTOR
JEAN NOELTING	PRESIDENT AND CEO
HARVEY SOLURSH	CHIEF FINANCIAL OFFICER
ANATOLY PLOTKIN	CHIEF TECHNOLOGY OFFICER
JENNY SOLURSH	SENIOR VICE PRESIDENT
DAVID OUTHWAITE	VICE PRESIDENT, COMPLIANCE
PAUL GRAGTMANS	VICE PRESIDENT, BUSINESS DEVELOPMENT
ROBERT STIKEMAN	SECRETARY

MANAGEMENT TEAM

JEAN NOELTING	PRESIDENT AND CEO
HARVEY SOLURSH	CHIEF FINANCIAL OFFICER
ANATOLY PLOTKIN	CHIEF TECHNOLOGY OFFICER
JENNY SOLURSH	SENIOR VICE PRESIDENT
DAVID OUTHWAITE	VICE PRESIDENT, COMPLIANCE
PAUL GRAGTMANS	VICE PRESIDENT, BUSINESS DEVELOPMENT
NELSON LEE	DIRECTOR, FINANCE
NANCY CHAN-PALMATEER	DIRECTOR, COMMUNICATIONS
CHRISTOPHER SMITH	DIRECTOR, LICENSEE SERVICES
SERGUEI BOURENKOV	DIRECTOR, PRODUCT DEVELOPMENT

LEGAL COUNSEL

STIKEMAN, GRAHAM & KEELEY TORONTO, CANADA

AUDITORS

KPMG LLP CHARTERED ACCOUNTANTS TORONTO, CANADA

BANK

BANK OF MONTREAL TORONTO, CANADA

TRANSFER AGENTS

EQUITY TRANSFER SERVICES INC. TORONTO, CANADA

CONTINENTAL STOCK TRANSFER & TRUST COMPANY NEW YORK, USA

SHARES LISTED

TSE SYMBOL: CRY

NASDAQ SYMBOL: CRYP

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ANNUAL AND SPECIAL SHAREHOLDERS' MEETING

MAY 30, 2001 AT 4:30 P.M. (EASTERN)

SHERATON CENTRE TORONTO HOTEL

ESSEX BALLROOM

123 QUEEN STREET WEST

TORONTO, ONTARIO

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